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S. H. KRESS & COMPANY

ANNUAL REPORT

1942

Mfg.
CORP. FILE

S. H. KRESS & COMPANY

EXECUTIVE AND BUYING OFFICES
114 FIFTH AVENUE, NEW YORK, N. Y.

Officers

S. H. KRESS	*Chairman of the Board*
R. H. KRESS	*President*
W. L. BAKER	*Vice-President*
O. A. TAYLOR	*Vice-President*
H. F. CUNNINGHAM	*Secretary*
C. M. FUNK	*Treasurer*
W. M. WEAVER	*Assistant Treasurer*
W. F. DEMPSEY	*Assistant Secretary*
P. W. DENZIN	*Assistant Secretary*
W. G. FOLK	*Asst. Sec. & Treas.*

Directors

S. H. KRESS
H. S. BOWERS
M. A. HODGES
E. K. WILLIAMS
O. N. BIRKLAND
R. H. KRESS
W. L. BAKER
O. A. TAYLOR
J. M. HANCOCK
H. S. DAVIS
W. H. LOLLAR

Transfer Agent

LAWYERS TRUST COMPANY OF NEW YORK, N. Y.

Registrar

CHEMICAL BANK & TRUST CO. OF NEW YORK, N. Y.

February 3, 1943

To the Employes and Stockholders of S. H. Kress & Company:

The annual report of your Company for the year 1942 is submitted herewith. The Company's accounts have been examined by Messrs. Price, Waterhouse & Co., public accountants, whose certificate is appended to the statement.

The sales for the year 1942 were $116,958,589, or 15.3% higher than the sales for 1941. The profit for the year, before Federal income and excess profits taxes was $15,955,862, as compared with $10,043,211 for the preceding year. After deducting all charges, including Federal income and excess profits taxes, the net profit for the year 1942 was $5,438,862, representing $2.13 per share on the outstanding common stock, after payment of dividends on preferred stock. This compares with profits of $5,123,211 or $1.97 per share on the outstanding common stock for the year 1941. Dividends paid during 1942 on the common stock were the same as in 1941, namely, $1.60 per share. Dividends of 60c per share were paid on the preferred stock. The estimated post-war credit of $890,000 has been included in profits though it is not collectible until after termination of the war.

The Company operated 244 stores at the end of 1942. During the year new stores were opened at Harlingen, Texas, Houston, Texas and Jacksonville, Florida and stores at Little Rock, Arkansas, and Laurel, Mississippi were closed due to fires. Due to war time restrictions the Company has found it necessary to postpone the opening of new stores and all but most necessary rehabilitations and improvements of stores in operation; however, every effort has been made to maintain the high standards of our stores.

The financial statements for the year include charges against the year's operations of an aggregate amount of $13,161,270 for Federal, State and municipal taxes. In addition the Company collected from customers and remitted to taxing authorities $2,490,228 in excise and sales taxes.

Our inventories, valued at lower of cost or market as in the past, are higher than at the end of the preceding year reflecting increased costs of merchandise and the necessity of acquiring adequate stocks to meet our customers' demands. The advent of price ceilings and other restrictions impose increasing difficulties in maintaining an adequate margin of gross profit and also in obtaining the merchandise required for our business.

The opportunity of participating in the benefits of the Company's retirement pension plan has now been extended to employes earning a minimum of $2,000 annually subject to the same age and length of service requirements of the higher salary group.

As of this date 856, or approximately 32% of the Company's male employes have entered the armed services of our country; 96.7% of our men who were called for induction or who applied for enlistment have been accepted—only 28 men having been rejected for physical causes. Of the Kress men who went into the armed services during the past year, 60 are already non-commissioned officers, while 58 are commissioned officers, of whom three are majors. The loss of so many of our men has created serious problems and difficulties in the operation of the business. Notwithstanding these handicaps the faithful cooperation of our loyal employes has made it possible to continue to efficiently serve the public in the distribution at low cost of the every day household necessities.

Your management is making every effort to coordinate the activities of the Company with the national war effort. The employes of the Company have cooperated loyally by making regular purchases of war stamps and bonds and in every store special facilities are maintained for selling these securities to the public. The results of this activity have been gratifying.

By order of the Board of Directors,

S. H. Kress, *Chairman.*

S. H. KRESS

Balanc

	December 31, 1942	December 31, 1941
ASSETS		
CURRENT ASSETS:		
Cash	$ 8,464,252	$ 9,977,006
U. S. Government securities, at cost (quoted market value at December 31, 1942—$9,501,741)	9,506,212	3,036,562
Sundry debtors	307,350	282,353
Inventories of merchandise, including merchandise in transit, at cost or market, whichever is lower	21,680,280	19,945,398
Total current assets	$39,958,094	$33,241,319
LOANS AND ADVANCES TO LANDLORDS, DEPOSIT IN ESCROW AND MISCELLANEOUS NOTES RECEIVABLE	$ 418,021	$ 431,821
RIGHT TO RECEIVE POST-WAR REFUND OF EXCESS PROFITS TAX (estimated)	$ 890,000	.....
PREPAID INSURANCE PREMIUMS, DEFERRED RENTAL EXPENSES, PREPAID TAXES, RENTS, ETC.	$ 604,437	$ 563,595
CAPITAL ASSETS:		
Fixtures and equipment, at cost	$15,344,594	$15,076,596
Less—Reserve for depreciation	9,899,709	9,323,423
	$ 5,444,885	$ 5,753,173
Leasehold and other improvements, at cost	$16,959,294	$16,905,882
Less—Reserve for amortization	6,975,876	6,489,965
	$ 9,983,418	$10,415,917
Land and buildings owned in fee, at cost in cash and capital stock	$38,623,481	$38,100,638
Less—Reserve for depreciation	6,777,216	6,100,054
	$31,846,265	$32,000,584
Goodwill, leaseholds, etc.	$ 1	$ 1
Total capital assets	$47,274,569	$48,169,675
	$89,145,121	$82,406,410

To the Stockholders of
S. H. Kress & Company:

We have examined the balance sheet of S. H. Kress & Company as of Dec then ended. We tested accounting records of the Company and other supporting express an opinion regarding the financial statements. Our examination was n circumstances and while it did not include a detailed audit of the transactions, accounting control of the Company.

In our opinion, the accompanying balance sheet and related statement of at December 31, 1942, and the results of its operations for the year then ended consistent with that of the preceding year.

56 PINE STREET,
New York,
February 3, 1943

& COMPANY

e Sheet

	December 31, 1942	December 31, 1941
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable—trade creditors	$ 947,013	$ 986,511
Accounts payable—merchandise in transit	765,840	1,188,591
Accrued salaries, wages, taxes and expenses and miscellaneous accounts payable	2,019,053	2,626,669
Provision for Federal income, excess profits and capital stock taxes	11,640,088	5,075,070
Total current liabilities	$15,371,994	$ 9,876,841
CAPITAL STOCK AND EARNED SURPLUS:—		
Capital stock:		
Special preferred stock—6% cumulative—		
Authorized—		
1,000,000 shares of $10 each $10,000,000		
Issued—911,976-6/40 shares	$ 9,119,761	$ 9,119,761
Common stock without par value—		
Authorized—2,678,787 shares		
Issued or reserved for exchange of old stock—2,357,574 shares	48,511,253	48,511,253
Total capital stock	$57,631,014	$57,631,014
(Common stock reserved for sale to employes—68,434 shares)		
Earned surplus (including, at December 31, 1942, estimated amount of post-war refund of excess profits tax—$890,000), per statement attached	$18,173,061	$16,929,252
Less—Cost of shares of special preferred and common stock reacquired and held in treasury (December 31, 1942—special preferred stock, 191,114 shares, $1,912,431; common stock, 5,900 shares, $118,517)	2,030,948	2,030,697
	$16,142,113	$14,898,555
Total capital stock and earned surplus	$73,773,127	$72,529,569
	$89,145,121	$82,406,410

ember 31, 1942 and the related statement of profit and loss and surplus for the year
evidence by methods and to the extent we deemed appropriate to enable us to
ade in accordance with generally accepted auditing standards applicable in the
it included all procedures we deemed necessary after consideration of the internal

profit and loss and surplus present fairly the position of S. H. Kress & Company
, in conformity with generally accepted accounting principles applied on a basis

PRICE, WATERHOUSE & Co.

S. H. KRESS & COMPANY

Statement of Profit and Loss and Surplus

	Years ending December 31, 1942	1941
Gross sales	$116,958,589	$101,396,512
Deduct:		
Cost of merchandise sold, taxes and selling, administrative and general expenses (including amounts charged to owned stores as rental)	$100,171,129	$ 90,334,814
Provision for depreciation and amortization	2,318,505	2,538,818
Provision for employes' retirement pension trust plan	178,210	136,992
Loss on sale of capital assets	105,805	109,566
	$102,773,649	$ 93,120,190
	$ 14,184,940	$ 8,276,322
Add:		
Amount charged to owned stores as rental (included in operating expenses above)	$ 1,473,374	$ 1,430,407
Rentals received from other tenants	252,966	254,292
Miscellaneous other income	34,670	37,653
Profit on sales of U. S. Government securities	9,912	44,537
	$ 1,770,922	$ 1,766,889
Profit before provision for Federal income and excess profits taxes	$ 15,955,862	$ 10,043,211
Provision for Federal income taxes (estimated)	$ 2,507,000	$ 2,405,000
Provision for Federal excess profits taxes (estimated)	$ 8,900,000	$ 2,515,000
Less—Estimated post-war refund credit	890,000	.....
	$ 8,010,000	$ 2,515,000
Total Federal taxes based on income	$ 10,517,000	$ 4,920,000
Profit for the year	$ 5,438,862	$ 5,123,211
Earned surplus at beginning of year	16,929,252	16,055,127
	$ 22,368,114	$ 21,178,338
Dividends paid:		
On common stock ($1.60 per share)	$ 3,762,678	$ 3,762,678
On special preferred 6% cumulative stock	432,375	486,408
	$ 4,195,053	$ 4,249,086
Earned surplus at end of year	$ 18,173,061	$ 16,929,252

Comparative Annual Sales and Profits

Year	Sales	Sales Increase Over Preceding Year	Profits ¢ per $ Sales	No. of Stores End of Year
1916	$15,059,683	21.15%	8.98	130
1917	17,633,100	17.08	8.31	144
1918	21,160,111	20.00	5.47	144
1919	25,244,131	19.30	8.22	145
1920	28,973,847	14.77	3.31	145
1921	28,908,981	(.22)	4.35	142
1922	30,646,938	6.01	10.08	145
1923	34,005,464	10.95	10.21	152
1924	40,259,232	18.39	7.80	161
1925	45,963,182	14.17	9.05	166
1926	51,869,460	12.85	9.01	169
1927	58,059,925	11.93	8.77	183
1928	65,054,637	12.05	8.65	193
1929	68,474,993	5.26	8.52	203
1930	69,283,102	1.18	7.71	212
1931	69,041,926	(.35)	7.27	221
1932	62,776,948	(9.07)	5.46	230
1933	65,018,110	3.57	7.93	230
1934	75,662,274	16.37	7.76	232
1935	78,479,130	3.72	7.38	234
1936	86,767,531	10.56	6.74	235
1937	87,871,478	1.27	6.67	234
1938	82,187,173	(6.47)	4.46	240
1939	84,851,373	3.24	5.85	240
1940	88,299,961	4.06	6.04	242
1941	101,396,512	14.83	5.05	242
1942	116,958,589	15.35	4.65	244

Proxies for the 1943 annual meeting of stockholders will be requested during the early part of April, 1943 at which time the proxy statement will be sent to common stockholders.

This annual report to stockholders is not a representation, prospectus or circular in respect of any stock or security, and is not transmitted in connection with any sale or offer to sell, or solicitation of an offer to buy, any stock or security now or hereafter to be issued, or with any preliminary negotiations for such sale.